Creating Opportunities in Russia's Financial Services Sector

By working with financial professionals in the United States and Russia, the Department of Commerce has helped develop a program to better manage Russia's growing financial assets and pension management sector.

by Michael Corbin

Since 2003, the Office of Finance of the International Trade Administration (ITA), with U.S. industry, has been working with Russian government officials and asset management industry professionals to develop a training program for Russia's developing private pension and asset management sector. This training has been coordinated with reforms undertaken during the past several years in Russia's private pension sector, and it seeks to build capacity in the Russian market while enhancing opportunities for U.S. firms.

Three participants in the financial assets management training program with their Commerce Department and private-sector contacts during a visit to Washington, D.C. From left to right: Alexander Viner (JSCB TransCapitalBank); Maxim Bekishev, (BrokerCreditService); Michael Corbin (U.S. Department of Commerce); Lydia Borgatta, (senior vice president for investments, AG Edwards); Natalya Dostovalova (Vnesheconombank).

An Important Export Sector

The financial services sector, which includes asset management, is an important and growing export for the United States. In 2005, U.S. firms exported some $29.2 billion in financial services. Russia is an untapped market for U.S. firms active in that sector. But prospects for increased access to the Russian financial services sector will depend on a number of factors, including ongoing trade negotiations, development of a sound financial infrastructure, and cultivation of strong business ties between Russian and U.S. asset managers.

Enormous Growth Potential

Since its recovery from the global financial crisis in 1998, the Russian government has made efforts to reform its capital markets in the pension sector. Although results thus far have been mixed, a successful reform will reinforce the ability of individuals to seek private management of their pension assets and will help Russia to invest the tremendous liquidity that has accumulated after several years of high oil and gas prices. Although those reforms offer tremendous opportunities for foreign and domestic asset managers in Russia, they also present many challenges from a development point of view.

Currently, Russian capital markets are limited not only by regulatory and legislative requirements, but also by a lack of variety in the types of instruments available for investment. Consumers of financial products also lack the knowledge of, and trust in, investing in capital markets. For example, only 2 percent of Russian households have their savings in some type of private mutual fund. Those factors limit the knowledge of most Russian fund managers. At the same time, the potential for growth is enormous. During the next five years, the asset management sector in Russia is expected to grow to as much as $250 billion from the current $20 billion.

Internship Program Launched in 2004

In February 2004, after two years of work by Russia and the Unites States, an internship program in financial asset management was officially unveiled in New York. The Russian participants commit to one or two weeks of training in New York City and Washington, D.C. In New York City, the participants meet with various U.S firms throughout the sector. Such meetings enable them to obtain experience working with live assets on a real team. In Washington, D.C., they meet with regulators and related trade associations. During the course of the program, participants can take part in seminars and other types of information exchanges.

Since its inception, the program has trained 15 high-level Russian money managers from organizations such as Vnesheconombank, Nikoil (now UralSib), BrokerCreditService, JSCB Transcapitalbank, and RegionGazFinance. The bulk of the training has been devoted to Vnesheconombank, which is responsible for the management of more than $10 billion in private pension money. Nearly 96 percent of that amount was created by Russian pension reforms that were enacted in 2001.

Continuing Commitment

In April 2005, ITA’s Office of Finance and the Russian Ministry of Finance concluded a memorandum of understanding. In it, both sides committed to continuing their cooperation in support of Russia’s financial services sector. That obligation underscores the Commerce Department’s commitment to assist Russia in developing its insurance and pension sectors while, at the same time, helping to bring the country into adherence with World Trade Organization (WTO) norms, a step that will be necessary if Russia is to join the WTO.

Expansion of Program Sought

With the rapidly developing Russian market, the Office of Finance is seeking to advance the training program through a number of means. One is the series of ongoing discussions that have been held with the State Department's International Visitors Program, to involve it in a proposed program that would bring a group of Russian regulators and legislators to the United States for training. Such training would give participants the tools they need to approve more investment instruments with greater speed and to clarify existing loopholes in Russian legislation. The Office of Finance is also working with various stakeholders to develop a U.S.–Russia funds conference in late 2007.

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